

After a difficult and prolonged recession, Southern California's economy has made a remarkable recovery. Despite a wave of disasters, both natural and manmade, and massive cuts in federal military spending, the region has added more than 800,000 jobs since the recession low point in early 1994 (Figure 1). Record levels of foreign trade and motion picture production, a pronounced recovery in tourism, and strong employment gains in apparel manufacturing, software and professional services have all played a critical role in leading the region out of recession. This is a significant economic turnaround in a formidable regional economy.

With an estimated gross regional product of nearly \$500 billion, the region's economy is the 12th largest in the world—smaller than that of South Korea but considerably larger than that of the Netherlands. From 1970 to 1998, the region's population increased by more than 6 million, an amount equivalent to adding a state the size of Massachusetts to SCAG's six counties. Between 1972 and 1998 a remarkable 3 million jobs were created in the region, and personal income region-wide rose from just over \$4,800 per capita in 1970 to \$26,400 twenty-eight years later. This is an impressive economic record, certainly among

the best, in terms of the sheer magnitude of change, of any region in the world.

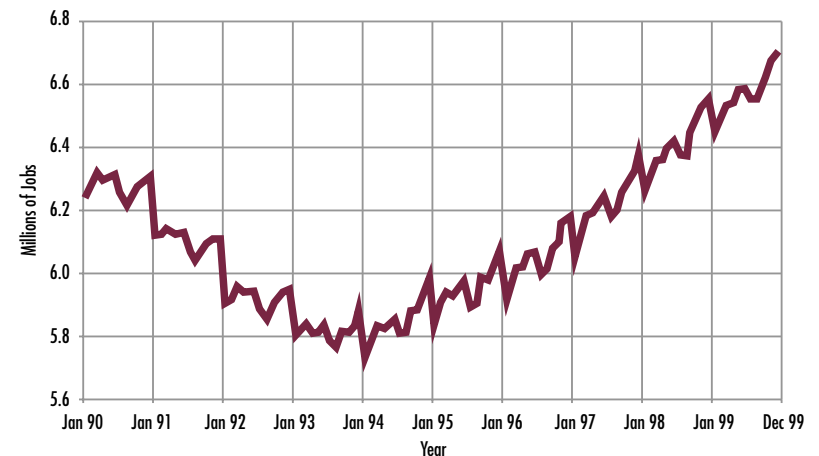
Yet, the recent economic recovery represents a historical break from the past. Unlike the post-Depression era or any subsequent recoveries, the region's current upturn has come without a large boost in defense spending, nor has it come from a robust real estate, insurance, or financial service sector. In fact, defense and financial industry cuts and job losses continued to mount throughout much of the recovery. Unique in this economic turnaround are the significant employment gains in small and medium sized companies, as well as in emerging industry sectors such as apparel, toys, multimedia, entertainment, biomedical, professional services and international trade. Whereas the economy of the past was defined and dominated by large companies, the region now boasts the most numerous collection of smaller, fast growing companies in the nation.

From a structural point of view, this increasingly diverse economy is far healthier than its predecessors. Less sensitive to future economic disruptions in any single industry, the SCAG regional economy now boasts an amazing critical mass of diverse industry sectors. Although the recovery has been broad-based and widespread, in a region as large and complex as Southern California, not all industries and

subregions have fared equally. For example, by the end of 1998 five of the SCAG region's six counties had recovered all of the jobs lost in the 1990-93 recession. The exception was Los Angeles County, which bore four out of every five job losses in the region during the recession. At the beginning of this year the County was still some 113,000 jobs short of recovering all of the 500,000 jobs it lost between 1990 and 1993.

Figure 1

Southern California Nonfarm Wage & Salary Jobs



Source: EDD, SCAG employment database.

This chapter is an assessment of the SCAG regional economy. What are its strengths and weaknesses? Where do future opportunities lie? What needs to be done to enhance the region's competitiveness in the national and world economy?

Since the recession, a different type of economy has taken hold of the SCAG region. Various descriptions and definitions are used to characterize the structural economic changes impacting the Southern California, U.S. and world economies. Often referred to as the new economy, this term encompasses businesses and organizations that look, think and operate very differently from traditional businesses of the past. Consistent with the new economy, competitive businesses now must rely upon: business networks and organizational flexibility, product and service customization, global market strategies and international connections, as well as a heightened reliance upon technology. As a new economy epicenter, Southern California reflects a variety of these elements:

- The Los Angeles Customs District handled \$185.9 billion in trade volume in 1997. Since 1987, the district's trade volume has increased 240%, despite the region's economic troubles in the early part of the decade.
- The Los Angeles area ranked first nationally in the percent of jobs tied to companies with less than one hundred employees and with under \$5 million in sales.¹

- The SCAG region ranked first nationally in number of minority and women owned businesses.

- The region's technical workforce totals more than 769,000 workers, including 138,539 engineers and 76,317 natural scientists.²

- Fifty-four percent of California's 35,170 technology-based firms are located in the five-county region of Southern California.

- Since 1989, Southern California has added more companies to the Inc. 500 list of fastest-growing privately held companies than any other region in the country.

A new economy forces a new set of public and private sector assumptions and priorities. Contrary to the belief that economic activity naturally follows perpetual social investment, a new economic model must be developed that positions both business and government to be profitable and competitive regionally, nationally and internationally. Within this new economic paradigm growth and wealth creation will be measured less in terms of natural resources than in terms of human resources, the skill levels of regional workers, and the pipeline of future workers. For this reason, public and private sector organizations and regions must think strategically as they develop

plans for their future. The foundation for such a model is to identify and capitalize on competitive advantages found within Southern California's business, government and educational institutions and create a complementary organizational infrastructure. More than ever, regions are forced to find new and creative ways to meet the challenges before them.

¹ David Birch, Anne Haggerty, William Parsons, Corporate Almanac 1993, Cognetics, Cambridge, MA, 1996, pp. 4,51

² "Southland Technology Leader," Published by Corp Tech for the Los Angeles Regional Technology Alliance, 1995, p.6.